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BEFORE THE PUBLIC UTILITIES COMMISSION OF

THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company to Establish a Demonstration Climate Protection Program and Tariff Option	Application 06-01-012

OPENING COMMENTS OF THE UTILITY REFORM NETWORK ON

THE PROPOSED DECISION OF ALJ THOMAS

TURN
affordable utilities
livable communities

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November 20, 2006

OPENING COMMENTS OF THE UTILITY REFORM NETWORK ON THE PROPOSED DECISION OF ALJ THOMAS

Pursuant to Rule 14.3, The Utility Reform Network (TURN) hereby files comments on the Proposed Decision (PD) of ALJ Thomas on the application of Pacific Gas & Electric (PG&E) seeking to establishment of a Climate Protection Tariff (CPT). TURN generally supports the PD and believes that it represents a balanced approach to moving forward with the CPT program. However, TURN strongly urges the Commission to modify one critical element of the PD – the allocation of CPT costs to non-participant ratepayers based on distribution marginal costs. As explained in the following sections, this approach is at odds with past precedents and current practice, and is not supported by any analysis. In addition, TURN continues to believe that the size of the program budget is excessive and should be reduced or subject to additional review and scrutiny.

I. Any costs allocated to non-participants should be spread using an equal cents per kilowatt hour methodology

The PD considers and rejects the proposal from all ratepayer advocates to allocate any Administration and Marketing costs collected from non-participants on an equal cents per kilowatt hour basis. Based on PG&E's claim that "90% of CPT customers will be residential, but will bear only 48% of A&M costs", the PD decides that it is reasonable to allow PG&E to use its preferred methodology and collect these costs as a distribution-related expense.[1] This conclusion is based on faulty analysis and lacks any historical perspective on the approach to the inter-class allocation of various utility costs.

For starters, the PD misconstrues the significance of the expectation that 90% of CPT customers will be residential. This fact is not persuasive because it fails to acknowledge that the residential

[1] PD, page 25.

class represents approximately 88% of total PG&E bundled service customers.[2] In truth, the expected participation of residential customers in the CPT is practically identical to the portion of total PG&E customers represented by the residential class. The reasoning used in the PD is flawed because allocating costs based on the raw numbers of customers participating in a voluntary program is not consistent with any accepted ratemaking principle. Moreover, it is inconsistent with the PD's claim that **"**the program will provide benefits to all ratepayers."[3] If the CPT provides benefits to all ratepayers, why should A&M costs be allocated on the basis of expected customer participation within each class?

In contrast to the proposed outcome in the PD, residential customers are typically allocated certain public purpose program revenue requirements on an "equal percent of revenue" or "equal cents per kilowatt hour" basis. Several other revenue requirements for programs providing broad benefits (nuclear decommissioning, DWR bonds, and certain transmission rates) are allocated on an equal cents per kilowatt hour.[4] In its pending General Rate Case, PG&E proposes to allocate energy efficiency costs on an equal percent of revenue basis despite the fact that some of these programs (low-income energy efficiency) do not include any participants outside of the residential class.[5]

Similarly, PG&E's CARE program costs are currently allocated as equal cents per kWh despite the fact that 100% of CARE participants are residential customers. The Commission has repeatedly upheld this approach for the collection of CARE program costs for all utilities.[6] This allocation reflects the principle that the cost burden for public purpose initiatives is more appropriately correlated with sales to a customer class. For environmental programs, the Commission previously agreed with this principle in allocating the gas portion of the Self-

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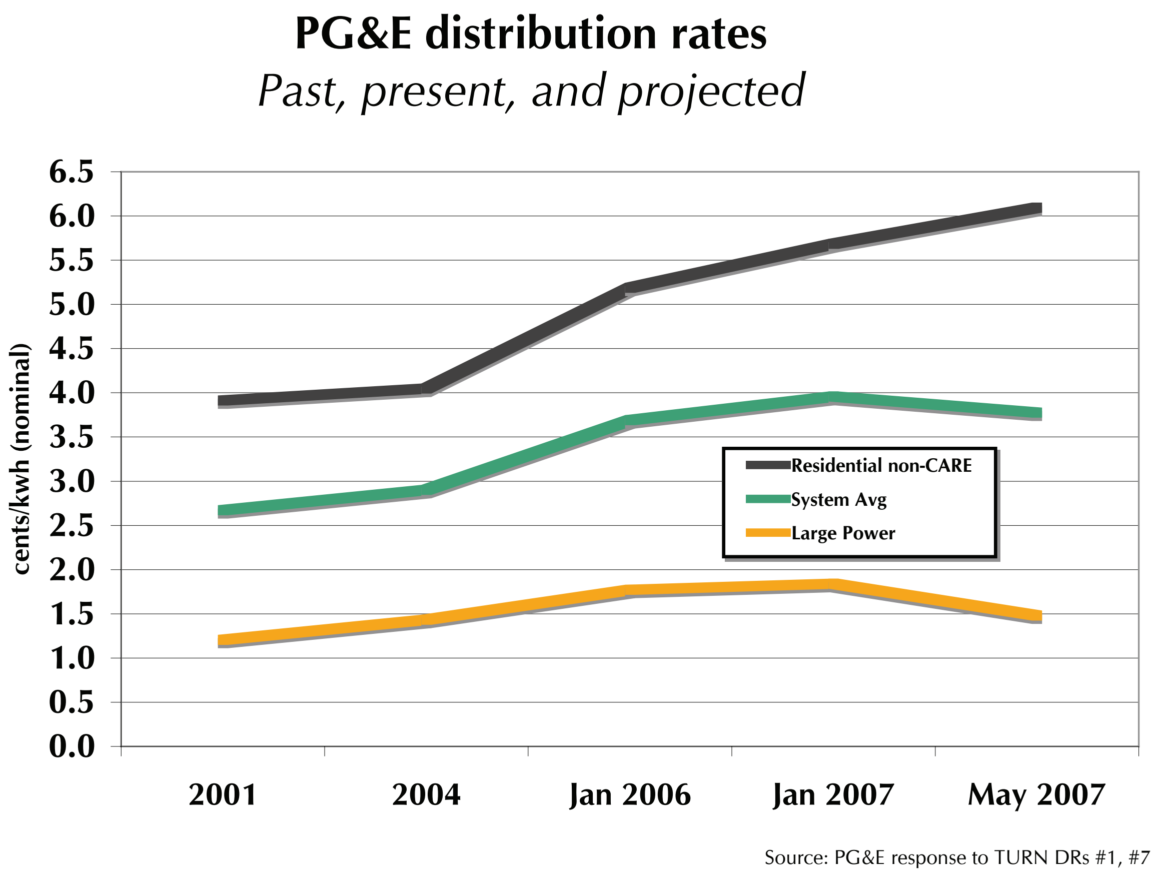
[2] See Ex. PG&E-8, page 4-8, A.05-12-002 (PG&E GRC 2007). This document is cited pursuant to Rule 72.
[3] PD, page 13.
[4] RT Vol. 3, pages 488-489, Luboff.
[5] RT Vol. 3, pages 488-489, Luboff.
[6] D.89-09-044, 32 CPUC 2d 406; D.96-04-050, 65 CPUC 2d 362, 412; D.00-06-034 (p.65).

Generation Incentive Program (SGIP) on an equal cents per them basis, explaining that such an approach is "consistent with our view that all customers should pay for programs that provide environmental benefits."[7]

In contrast to the approach taken for the above-referenced programs, PG&E proposes to base the allocation of CPT costs on the marginal cost of building distribution infrastructure to serve each class of customers. This proposal is not based on any attempt to assign CPT benefits to specific customer classes.[8] Since the Commission has never adopted the position that CARE costs should be allocated on the basis of the marginal cost of distribution service, the PD's proposal should be recognized as a radical departure from historical practice. If applied to other public purpose program costs, this outcome could result in severe and pervasive rate impacts for residential customers.

The PD suggests that residential customers would pay 48% of CPT A&M costs under PG&E's approach. This figure is at odds with PG&E's own proposal in Phase 2 of its current General Rate Case (A.06-03-005). Under PG&E's preferred approach, residential customers would be assigned 57% of distribution costs.[9] If adopted, PG&E's methodology would cause residential distribution rates to rise to unprecedented levels. The PD would countenance and encourage this cost shifting effort. The following graphic illustrates the trend towards disproportionately allocating what are classified as "distribution" costs to residential customers:

[7] D.05-06-029, page 17.
[8] RT Vol. 3, page 469, Luboff.
[9] A.06-03-005, See testimony of William Marcus and Michel Florio on Marginal Cost, Revenue Allocation, and Residential Rate Design for PG&E, page 54



The CPT program links actual customer energy usage with specific GHG reduction targets, recognizing that energy usage by a customer is the primary driver of GHG emissions. Charging customers for this program based on their energy usage reinforces the same linkage to GHG emissions and therefore represents a fair and reasonable method for collecting any program costs not funded by shareholders or participants.

TURN feels very strongly about this issue. In recognition of the broad benefits expected from the CPT program, the Commission should either adopt the equal cents allocation approach proposed by TURN, DRA and Aglet, or defer consideration of the allocation issue to the next appropriate rate design proceeding for each utility.

II. PG&E's Administration and Marketing Budget is Unjustified and Excessive

The PD agrees with intervenor concerns in concluding that PG&E's proposed Administration and Marketing (A&M) costs are excessive and not justified based on the evidence presented.[10] Despite this admission, the PD proposes to approve the budget in its entirety without modification. This outcome is unreasonable and should be rejected in favor of authorizing rate recovery for a reduced A&M budget.

PG&E's budget remains problematic for three key reasons. First, the methodology used to develop the revenue requirements for marketing ($12 million) is inconsistent with the traditional budgeting approach for other GRC revenue requirements. Second, the total budget is excessive relative to other comparable voluntary programs. Third, the level of the total budget is excessive relative to the level of CPT premium revenues and GHG reduction commitments expected during the relevant timeframe. As a result, the CPT program does not promise to deliver cost-effective GHG reductions.

Since PG&E has not demonstrated the reasonableness or cost-effectiveness of its request, the Commission should not authorize its recovery from ratepayers (whether they are participants in the CPT or non-participant ratepayers). The Commission should either authorize a reduced budget or establish a memorandum account to track A&M expenses and require PG&E to submit a request for recovery of specifically incurred costs in a future phase of this (or another) proceeding.

[10] PD, page 12 ("We agree that PG&E's A&M expenses are out of proportion to the revenues it will generate from customers who opt for the CPT. PG&E's customer acquisition methodology is lacking in detail and contains many assumptions that may not come to pass.")

Respectfully submitted,

MATTHEW FREEDMAN

/s/

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Dated: November 20, 2006

CERTIFICATE OF SERVICE

I, Cory Oberdorfer, certify under penalty of perjury under the laws of the State of California that the following is true and correct:

I served the attached:

OPENING COMMENTS OF THE UTILITY REFORM NETWORK ON THE PROPOSED DECISION OF ALJ THOMAS

by sending said document by electronic mail to each of the parties on the attached Service Lists of **A.06-01-012**.

Executed this November 20, 2006, in San Francisco, California.

/s/

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CALIFORNIA PUBLIC UTILITIES COMMISSION
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Proceeding: A0601012 - PG&E - DEMONSTRATION
Filer: PACIFIC GAS AND ELECTRIC COMPANY (U 39 E)
List Name: LIST
Last changed: December 7, 2006

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